



July 21, 2021

Submitted via email to regs.comments@federalreserve.gov

Ann E. Misback
Secretary, Board of Governors
Federal Reserve
20th Street & Constitution Ave, NW
Washington, DC 20551

RE: Docket No. R-1748, RIN 7100-AG15

Dear Ms. Misback:

Thank you for the opportunity to comment on the Board of Governors proposal to amend Regulation II to clarify the requirement for each debit card transaction must be allowed to be processed on at least two unaffiliated payment card networks for card-not-present transactions. On behalf of the members of the West Virginia Retailers Association, we write to share our retail members' perspective. Members report that the fees associated with accepting debit cards and the growing barriers to accessing competitive networks is increasing their operating costs and ultimately impacting the customers they serve every day. Our association asks that the Federal Reserve Board of Governors consider taking immediate action to enforce the routing competition provisions and reduce the regulated rate as required by law.

WVRA represents hundreds of retail locations in WV and our members weathered the events of the past year when unimaginable strains were placed in the retail industry. In a matter of weeks, U.S. consumers shifted a significant portion of their shopping to online and as a result went from paying with various tender forms to paying almost exclusively with debit and credit cards. In response to this shift, retailers have invested significant resources to accept, fulfill and deliver online orders to meet the increased consumer demand.

Retail is highly competitive and functioning on razor thin profit margins. When they shop, consumers have a great number of choices in their community, and online. Price is often the only determining factor when a consumer makes a purchasing decision. The consumer has many choices on where and how to buy what they need; however, merchants have little to no choice when it comes to routing card payments used for online purchases.

This shift has greatly increased West Virginia Retailers Association members' cost of doing business, placing further strains on the ability to keep prices low while also faced with rising inflation at such a critical time. The Federal Reserve Board of Governors can provide direct relief to retailers in West Virginia by enforcing the routing provisions in the 2010 debit reform law and reducing the regulated debit interchange rate commensurate with cost reductions.

The intent and language of the law is clear, retailers must have access to competitive networks for debit transactions. No network or issuing bank can remove that choice. The Board is entrusted to enforce the law, particularly when more dominant networks are benefiting at the retailer's and other network's expense. As the Board notes, currently only 6% of online debit transactions are being processed by single-message networks. This marketplace distortion is clearly problematic and within the ability of the Board to rectify quickly. An open and competitive market benefits all stakeholders, most importantly the U.S. consumer.

Therefore, WVRA strongly supports the Board acting quickly to finalize the clarifications and enforce the debit routing provisions. Doing so will help ensure that my members will have access to at least two unaffiliated debit networks before they head into the busy holiday season.

The West Virginia Retailers Association also asks that the Board act quickly to reduce the regulated debit rate to reflect both the reduction in cost and fraud burden of the regulated issuing banks, pursuant to the survey that was released by the Board at the same time as this request for comment. U.S. merchants paid \$24.38 billion in debit interchange fees in 2019.¹ With the significant shift to online and card usage, we can only expect that number to have increased dramatically in 2020. The Board set the current regulated rate for covered issuers at 21 cents plus five basis points with an additional penny for fraud adjustment when the law was initially implemented ten years ago. However, even with issuer costs having reduced by half, the rate has never been adjusted. The Board, in its biannual survey of issuer costs and fraud losses, reports that

¹ 2019 Interchange Fee Revenue Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions, May 2021.

it costs covered issuers less than four cents to process a debit transaction. Additionally, the Board noted “the percentage of losses from fraudulent transactions reported by covered issuers absorbed by merchants steadily increased from 38.3 percent to 56.3 percent...”²

These two facts are clear indicators that it is time for the Board to reduce the regulated rate to bring it into alignment with the statutory requirement that is both reasonable and proportional to issuers actual costs.

Thank you for your consideration of our member’s views on this proposed clarification to the regulations. Our association and its members are eager to work with the Board to ensure robust enforcement of the debit routing law and reducing the regulated debit rate.

Sincerely,

Bridget Lambert, President
WV Retailers Association

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² 2019 Interchange Fee Revenue Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions, May 2021.